



Annual Report 2003



## Company Profile

METRO INC. is a leading Canadian food retailer and distributor with operations concentrated in Québec and Ontario. The Company is the second largest food retailer in Québec, where it also holds an important position in the food services industry. In addition, it is active in the distribution of pharmaceutical products and as the franchisor of Brunet drugstores and Clini-Plus pharmacies. In Ontario, with its Loeb and Super C banners, METRO also ranks second in the supermarket segment in Ottawa and in the northeastern regions of the province.

METRO is dedicated to offering quality products adapted to its customers' needs, and to providing its shareholders with superior returns. Through its employees and those of its affiliated retailers, totalling more than 27,000 people, the Company is also an important contributor to the well-being and development of the communities where it is present.

**8.2%**  
sales  
growth



**15.7%**  
increase in  
net earnings

**52<sup>nd</sup>**  
consecutive  
quarter  
of net earnings  
growth

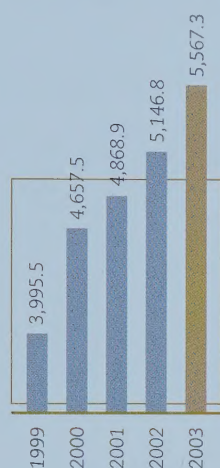


**23.8%**  
return  
on shareholders'  
equity

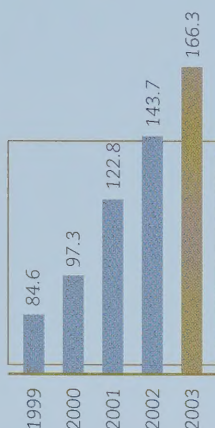
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# Financial Highlights

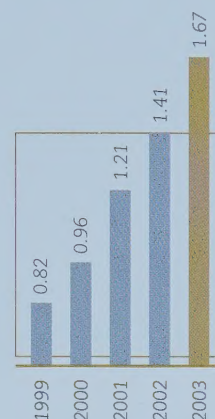
**Sales**  
(Millions of dollars)



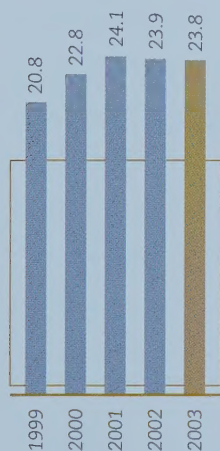
**Net Earnings**  
(before unusual items)  
(Millions of dollars)



**Fully Diluted Net Earnings per Share**  
(before unusual items)  
(Dollars)



**Return on Shareholders' Equity**  
(Percentage)



	2003	2002	Change (Percentage)
<b>Operating results</b> (Millions of dollars)			
Sales	5,567.3	5,146.8	8.2
Operating income	249.5	224.5	11.1
Net earnings	166.3	143.7	15.7
Cash flows from operating activities	197.3	226.0	(12.7)
<b>Financial structure</b> (Millions of dollars)			
Total assets	1,507.1	1,332.1	13.1
Long-term debt	8.8	25.0	(64.8)
Shareholders' equity	751.9	644.2	16.7
<b>Per common share</b> (Dollars)			
Net earnings	1.68	1.44	16.7
Fully diluted net earnings	1.67	1.41	18.4
Book value	7.69	6.47	18.9
Dividend	0.265	0.21	26.2
<b>Financial ratios</b>			
Operating income/sales (%)	4.5	4.4	—
Long-term debt/ shareholders' equity (xx:1)	0.01	0.04	—
Return on shareholders' equity (%)	23.8	23.9	—
<b>Market price</b> (Dollars)			
High	20.20	22.37	(9.7)
Low	15.76	16.90	(6.7)
Closing price (At year-end)	19.00	17.40	9.2

# METRO has achieved 13 consecutive years of steady growth based on innovation, investment and a **unique offering.**

## Record results

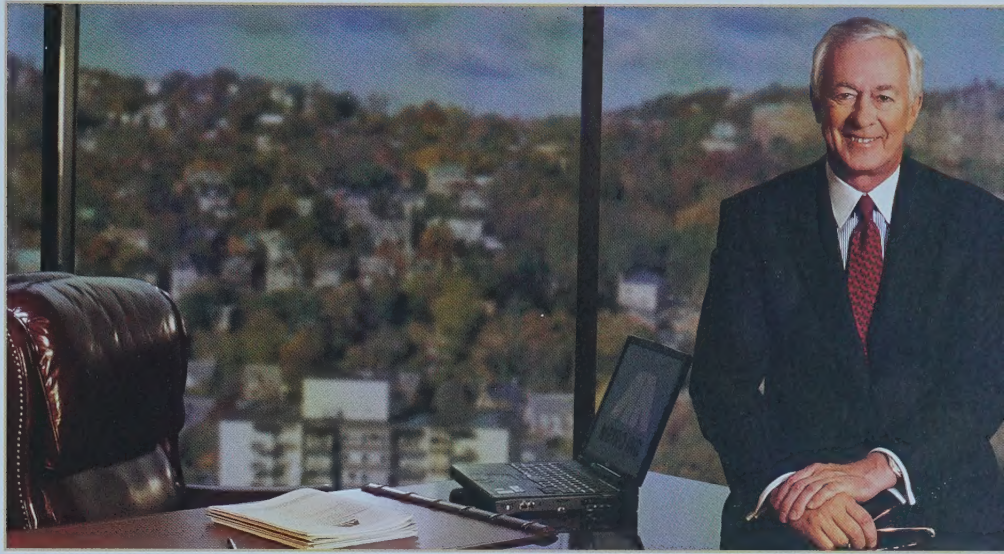
The fourth quarter of fiscal 2003 marked the 52<sup>nd</sup> consecutive quarter — or 13 straight years — of net earnings growth for METRO INC. The Company's net earnings for 2003 increased by 15.7% over the previous year, reaching \$166.3 million. On a fully diluted basis, net earnings per share rose 18.4% over 2002, to \$1.67. The Company also posted record sales: \$5,567.3 million, or an 8.2% increase over the prior year.

These results are all the more encouraging because they were achieved during a period of slower economic growth, intensified competition and low inflation in retail food prices. We are especially pleased by these results as they reflect growth in all of the Company's sectors.

## Comparative share performance\*



\* \$100 invested on September 30, 1990 in stock, including reinvestment of dividends.



Pierre H. Lessard

President and Chief Executive Officer

## Superior returns

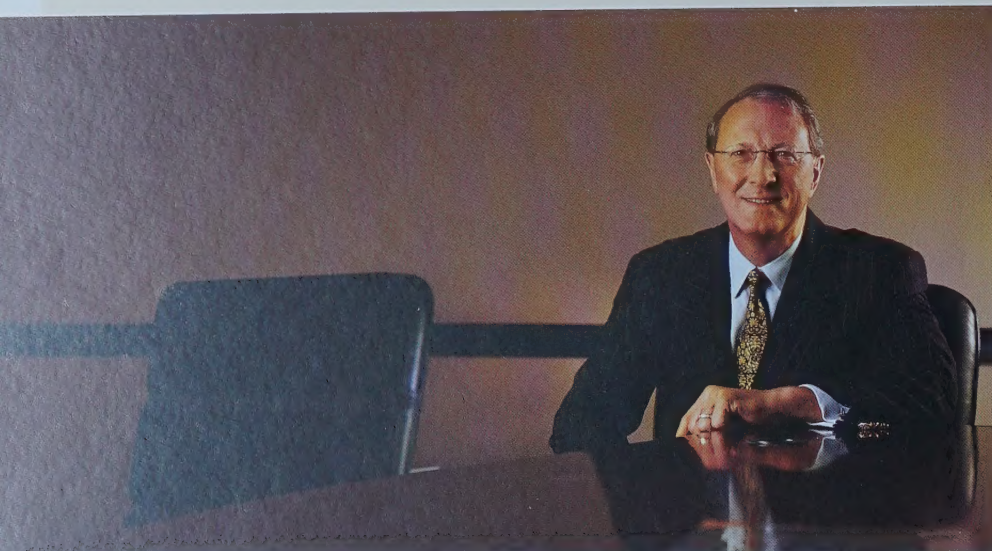
At 23.8%, the return on shareholders' equity exceeded 20% for the ninth consecutive year, providing METRO with one of the best rates of return among Canadian public companies. The Board of Directors of the Company increased the quarterly dividend to its shareholders for the ninth consecutive year, to \$0.265 per share, an increase of 26.2% over 2002, representing an overall distribution of \$26.2 million. In addition, the Company redeemed 1.8 million shares during the year for total proceeds of \$33.4 million.

METRO's share price rose by 9.2 % during the year, closing at \$19 at year-end. The Company's shares have grown steadily in value for the past 13 years, performing significantly better than both the S&P/TSX index and the food industry index.

## Continuous investment program

METRO is constantly investing in its network of stores and in its distribution centres. Over the past 10 years, the Company and its retailers have invested more than \$1.1 billion in store construction, expansion and renovation. In 2003, \$183.5 million was invested to bring the total floor space of the food retail network to more than 9.6 million square feet. The size of the meat and frozen food warehouses also doubled in Montréal and Québec City, as a result of investments of more than \$23 million during the past two years.

## Message to Shareholders



Maurice Jodoin  
Chairman of the Board of Directors

### Banner development

During the year, the Company improved the supermarket concept, with the launch of its new banner, **Metro Plus**. To our usual services, Metro Plus adds a *Nos Trouvailles* (Our Discoveries) section featuring a wide range of non-food products, a *Bio Découvertes* (Organic Discoveries) organic food section and also a health and beauty section, *Les Essentiels* (The Essentials). More than 20 stores should be displaying the Metro Plus banner at the end of fiscal 2004.

### Acquisition

METRO is always poised to take advantage of any possible acquisition or strategic alliance to help sustain its growth. With that in mind, in 2003 the Company purchased Alexandre Gaudet Ltée, a food distributor serving small-surface stores, further strengthening its position in this segment. METRO now supplies more than 2,000 of these stores, including 800 under one or other of its own banners.

### Long-term growth

METRO's balance sheet gives it considerable flexibility to pursue its development and maintain its market share. In February 2003, Standard & Poor's rating service awarded METRO a credit rating of "A-" in recognition of its constant profitability, the productivity of its stores, the soundness of its operating procedures and its conservative financial management.

Our investment program in the retail network has produced excellent results. The Company plans to continue this strategy with the objective of investing with its retailers more than \$450 million over the next three years to build, expand and remodel stores. It will also continue to open new Super C stores in both Québec and Ontario and will further support its expansion in the Ontario market by building, expanding and renovating Loeb supermarkets.

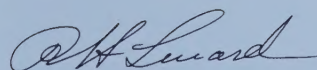
METRO expects to intensify the development of its McMahon Distributeur pharmaceutique inc. subsidiary, particularly in its role as franchisor of the Brunet and Clini-Plus banners which operate 175 drugstores and pharmacies.

Finally, management remains alert to any business opportunity likely to complement, strengthen or further differentiate the Company's offering of products and services.

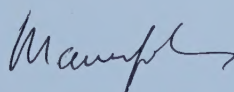
## Acknowledgements

METRO's distinctiveness makes it a unique destination. It owes this fact above all to the commitment and competence of all its partners. We take this opportunity to thank our employees, our managers and our retailers for their everyday passion and professionalism. We also extend our appreciation to our suppliers for their contribution to the quality of our products and services. We would also like to express our gratitude to the members of the Board of Directors for representing all of our shareholders so capably and attentively, and of course to our shareholders for their confidence over the years.

Finally, we wish to extend our warmest thanks to our customers for the trust they continue to place in us, year after year. For us, each and every one of them is unique.



Pierre H. Lessard, FCA  
President and Chief Executive Officer



Maurice Jodoin, CFA  
Chairman of the Board of Directors

The Metro, Super C, Loeb and Brunet banners feature unique shopping environments and remain among the industry's best performers.

The Company and its retailers invested a total of \$183.5 million in 2003 to open 12 new stores and remodel or expand 39 existing locations. These investments added 188,000 net square feet of retail space, bringing the total to over 9.6 million square feet. The Metro, Super C, Loeb and Brunet banners remained at the forefront of their respective market segments, and among the industry's best performers.





The Brunet banner now has a network of 102 drugstores.

**METRO**

**super C**

**Loeb**

**brunet**

	2003		2003		2003		2003
Number of stores	<b>243</b>	Number of stores	<b>53</b>	Number of stores	<b>40</b>	Number of drugstores	<b>102</b>
Average store size (Square feet)	<b>22,300</b>	Average store size (Square feet)	<b>45,200</b>	Average store size (Square feet)	<b>25,600</b>	Average drugstore size (Square feet)	<b>4,800</b>
<hr/>							
	2002		2002		2002		2002
Number of stores	251	Number of stores	49	Number of stores	43	Number of drugstores	91
Average store size (Square feet)	21,200	Average store size (Square feet)	46,300	Average store size (Square feet)	24,600	Average drugstore size (Square feet)	4,800

## Other banners

### Grocery

- Marché Richelieu
- Marché Extra !
- Marché Ami
- Les 5 Saisons

### Convenience store

- Dépanneur Gem
- S.O.S. dépanneur
- AM - PM
- Service

- Servi Express
- Dépanneur Matin-Soir
- La Relève

### Pharmacy

- Clini-Plus

## Year in Review



5:20 p.m. - Health and beauty



5:25 p.m. - Ready-to-eat food



5:30 p.m. - Wines of the world

## Every customer is unique

At METRO, every customer is unique. Each has his or her own needs, lifestyle, schedules and tastes. To answer these different needs, METRO conducted research among its customers. It revealed that time constraints and increased expectations in terms of quality and freshness are the main factors driving consumer demand. The Company has made it a priority to assist customers in their choices and to enable them to have the highest quality and variety.

The Company has established a diversified network of banners for every market segment, including conventional supermarkets (Metro and Loeb), discount food stores (Super C), neighbourhood food markets (Marché Richelieu) and, more recently, the Metro Plus supermarkets.

At METRO, each customer's needs are our priority and we are committed to fulfilling them.



5:40 p.m. - Check-out counter



# Year in Review



*Bio Découvertes* (Organic Discoveries) –  
An extensive range of biological foods



Metro Plus –  
Non-food products



## Unique variety and quality

METRO's product strategy is built on offering consumers variety and quality in both national and private-label brands such as *Merit Selection*, *Irresistible* and *Super C*.

This is also reflected in the meat section where METRO offers unique products including *RedGrill* AAA meats, aged to perfection for exceptional texture and taste, and the *Tender Fork* label, with its juicy, marinated meats that are exceptionally tender.

The Company's private-label products are designed to meet the widest variety of tastes and needs. Accordingly, *Bon Appétit* offers those who have little time to cook a full range of prepared foods, ready-to-eat or to heat. In addition, the *Irresistible* brand consists of premium products, ranging from smoked trout, to lobster and dried tomato mousse, fresh juices and fancy cheeses.

METRO often encourages growers and artisans working in the communities where stores are located by carrying locally produced goods, including certain cheeses, pâtés and jams. This way, in addition to guaranteeing maximum freshness, METRO supports the development of regional agri-food industries.

During the year, we improved the supermarket concept with the launch of our new banner, Metro Plus. We added to our customary services a *Nos Trouvailles* (Our Discoveries) section, featuring a wide range of non-food products, a *Bio Découvertes* (Organic Discoveries) organic food section, and also a health and beauty section called *Les Essentiels* (The Essentials).

Merit Selection, Irresistible,  
and **Super C** products:  
Always a treat.



Web site – Winner of an OCTAS award in the "Electronic Business – General Public" category from the Fédération de l'informatique du Québec.



## Unique service

Today's consumers have less time. They are looking for efficiency when they shop. They prefer supermarkets that offer all products and services in one location. Our qualified employees, trained at the *METRO School for Professionals*, provide our customers with quality service and helpful advice.

METRO listens to its customers. It has a toll-free telephone number which appears on the packaging of its private-label products. Customers can also visit [www.selectionmerite.ca](http://www.selectionmerite.ca) and comment on products and also receive discount coupons for products they would like to try. The Company also offers consumers an extensive selection of practical and popular recipes on its Web site at [www.metro.ca](http://www.metro.ca), which won an OCTAS award in the "Electronic Business – General Public" category from the Fédération de l'informatique du Québec. This site generates annual traffic of more than 2.2 million visits, representing 15.6 million viewed pages.

The Company's constant quest to provide variety and to adapt to demand is also reflected at its Brunet drugstores. It offers new products and services, such as the sale or rental of orthopedic equipment and the organization of health days for customers, hosted by health professionals.



The Company intends to be where consumers are by opening stores in developing communities, such as this new Loeb store in Casselman, Ontario.



# Management's Discussion and Analysis

## Highlights

Fiscal year ended September 27, 2003, compared with fiscal 2002

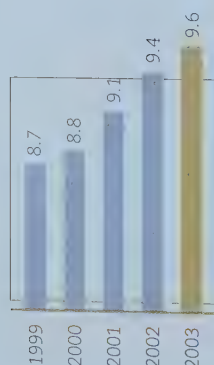
- Sales increased by 8.2% to \$5,567.3 million.
- Earnings before interest, taxes, depreciation and amortization<sup>(1)</sup> rose 11.4% to \$314.4 million.
- Operating income<sup>(1)</sup> (before interest and taxes) rose 11.1% to \$249.5 million, or 4.5% of sales compared with 4.4% in 2002.
- Net earnings were up 15.7% to \$166.3 million and fully diluted net earnings per share rose 18.4% to \$1.67.
- Return on shareholders' equity, at 23.8%, exceeded 20% for the ninth consecutive year.

## Sales

Sales for fiscal 2003 increased by \$420.5 million, or 8.2%, to \$5,567.3 million, despite low inflation in retail food prices. All sectors contributed to higher sales for 2003, including a 7% contribution from the food sector. The increased sales in this sector are the result of the influx of new customers in the small-surface segment, marketing strategies well adapted to consumer needs and the Company's ongoing retail investment program. The acquisition of Alexandre Gaudet Ltée on May 31, 2003, as well as the purchase of the assets of Grossiste Sue Shang Inc. at the end of the third quarter of fiscal 2002 helped the Company maintain its growth in this segment. Both are food distributors serving small-surface grocers and independent convenience stores. The sales increase on a same-store basis was 1.9% for 2003. Sales in the pharmaceutical sector climbed by 15.8% to \$433.2 million from \$374 million in 2002. The higher sales were due mainly to the development of the Brunet drugstores and Clini-Plus pharmacies, their total number reaching 175, up from 164 in 2002.

The Company and the retailers invested a total of \$183.5 million in the retail network in 2003. Major expansion and renovations were completed in 39 stores, while 12 new stores were opened, for a gross increase of 514,000 square feet of floor space. Total floor space in the retail network, after taking into account some store closings, reached 9.6 million square feet at year-end, an increase of 2% or 188,000 square feet, over the previous year-end. Average square footage per store was up 4.1% for 2003.

**Total Square Footage**  
(Millions of square feet)



**Earnings Before Interest, Taxes, Depreciation and Amortization<sup>(1)</sup>**  
(Millions of dollars)



## Operating income

Earnings before interest, taxes, depreciation and amortization<sup>(1)</sup> reached \$314.4 million, compared with \$282.1 million in 2002, an increase of 11.4%, representing 5.6% of sales for 2003 compared with 5.5% for the prior year. Operating income<sup>(1)</sup> (before interest and taxes) reached \$249.5 million, compared with \$224.5 million for 2002, an increase of 11.1%. Operating income<sup>(1)</sup> as a percentage of sales improved to 4.5% in fiscal 2003 from 4.4% in 2002. These increases mainly reflect sales growth, the favourable impact of investments in information technology and the centralization of procurement operations.

The increases are also the result of the improved profitability of the Loeb stores, the further development of private-label products generating higher margins and increased contribution from our investment in a company subject to significant influence.

The profitability of the Loeb stores continued to improve, approaching a level similar to those of other retail divisions, thanks to an adapted merchandising approach, the store renovation program and the conversion of Loeb stores to the Super C banner, which now has a total of five stores in Ontario.

The Company owns 10.6% of the capital stock of Alimentation Couche-Tard Inc. and accounts for its share of the earnings in this company subject to significant influence. The book value of this investment was \$33.2 million at September 27, 2003, while the market value was \$208.6 million. The Company exercised its right to maintain its ownership percentage by agreeing to a \$23.6 million participation in a prospective equity issue by Alimentation Couche-Tard Inc. planned for January 31, 2004, at the latest.

## Interest

Interest expense declined slightly to \$2.8 million in 2003 from \$3 million in 2002. The average cost of financing was 3.71% compared to 3.32% in 2002. The ratio of long-term debt to shareholders' equity was 0.01 at fiscal 2003 year-end, compared with 0.04 in 2002. Interest expense remained stable at 0.1% of sales in 2003. The interest coverage ratio was 89.1 times, compared with 74.8 in 2002.

## Income taxes

Income tax expense for fiscal 2003 represents an effective tax rate of 32.6%, compared with 35.1% for the previous year. The lower tax rates for 2003 are due mainly to a reduction in the federal income tax rate. In recent fiscal years, the Company has implemented a tax planning strategy based on the deferment of input tax credit claims to subsequent years with lower tax rates. This approach reduced income tax expenses by about \$5 million during the last three fiscal years. Changes to tax laws ended this practice at the end of fiscal 2003.

## Net earnings

Net earnings reached \$166.3 million, compared with \$143.7 million in 2002, an increase of 15.7%. Net earnings as a percentage of sales rose to 3% from 2.8% in 2002. On a fully diluted basis, net earnings per share was \$1.67 compared with \$1.41 in 2002, up 18.4%. Return on shareholders' equity was 23.8%, compared with 23.9% in 2002. For the ninth consecutive year, return on shareholders' equity exceeded 20%, positioning METRO Inc. among the most profitable Canadian public companies.

## Liquidity and capital resources

The Company maintained its solid financial position in 2003, while continuing its investment program. Cash flows from operating activities were \$197.3 million in 2003, compared with \$226 million in 2002. This \$28.7 million decrease is attributable primarily to increased deferment of input tax credits as a result of tax planning. These amounts receivable from governments will be collected before the end of the first quarter of fiscal 2004. The increase in net earnings and non-cash items reduced the impact of the higher amounts receivable from governments.

<sup>(1)</sup> Earnings are presented for information purposes only. They do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by other public companies.

## Management's Discussion and Analysis

Investing activities required cash of \$146.6 million in 2003, compared with \$155.4 million in 2002. Of this amount, investments in capital assets in the retail network and completion of the expansion of the meat and frozen foods warehouses, started last year, required \$117.3 million, compared with \$113.8 million in 2002. The acquisition of the shares of Alexandre Gaudet Ltée required an amount of \$6.7 million in 2003, while the purchase of the assets of Grossiste Sue Shang Inc. in 2002 required an investment of \$16.7 million. Finally, the Company invested \$20.3 million in 2003 to implement new computer applications, notably for the monitoring of construction projects, and in loyalty agreements with its affiliated retailers.

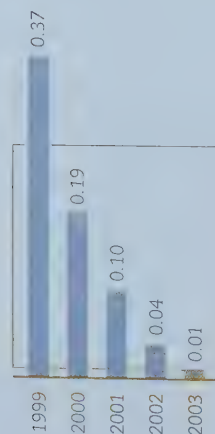
Net cash used for financing activities totalled \$50.7 million in 2003, compared with \$70.6 million in 2002. This amount was used, among other things, to reduce the long-term debt to \$8.8 million at year-end from \$25 million in 2002. The Company also distributed \$26.2 million in dividends in 2003, versus \$21 million last year. In 2002, the Company had settled in cash the exercise of stock options in the amount of \$23.5 million after taxes. The Company redeemed 1,760,300 Class A Subordinate Shares for a total of \$33.4 million in 2003, compared with 729,700 shares redeemed and proceeds of \$13.6 million the previous year. The Company acquired these shares in the normal course of its activities, at an average price of \$18.99 (\$18.53 in 2002), considering it to be a beneficial use of surplus funds.

### Balance sheet

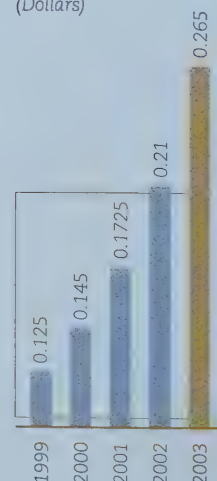
Long-term debt declined by 64.8% to \$8.8 million at 2003 year-end, compared with \$25 million at the end of 2002, while shareholders' equity increased by \$107.7 million during the same period, to reach \$751.9 million. At the beginning of 2003, the ratio of long-term debt to shareholders' equity was 0.04. At year-end, this ratio had declined to only 0.01, reflecting the Company's very solid financial position.

The Company expects to meet its financial requirements in 2004, mainly through internal cash flows and, as needed, through recourse to available credit facilities. The Company has access, through a syndicate of financial institutions, to a revolving demand credit facility of \$30 million and revolving term credit facilities of \$250 million compared with \$25 million and \$250 million respectively in 2002. At the end of fiscal 2003, unused and available credit facilities amounted to \$200.4 million. In the second quarter of 2003, Standard & Poor's awarded the Company an "A-" credit rating.

Long-Term Debt/  
Shareholders' Equity  
(xx:1)



Dividend Rate  
Per Share  
(Dollars)



## Capital stock

At September 27, 2003, the Company had 96,802,671 Class A Subordinate Shares (98,412,241 in 2002) and 1,009,440 Class B Multiple Voting Shares (1,074,240 in 2002) outstanding. At the same date, the Company had 5,290,282 stock options (5,176,418 in 2002) outstanding at exercise prices of between \$7.28 and \$21.75 (\$4.90 and \$21.75 in 2002), with maturity dates until 2010, 1,234,462 of which may be exercised. In fiscal 2003, 239,500 stock options were granted at a weighted average per-share price of \$17.22. During the first quarter of 2003, the Company adopted, on a prospective basis, the new accounting standard in Section 3870 of the Canadian Institute of Chartered Accountants (CICA) Handbook, entitled "Stock-based Compensation and Other Stock-based Payments". Under this standard, the Company has chosen to account for the exercise of stock options as capital transactions, by increasing the issued and paid-up capital stock by the amount of the proceeds of the exercise of the stock options. In Note 12 to the financial statements, the Company presents the pro forma net earnings and the pro forma net earnings per share, as if the fair value method had been applied. The adoption of this new accounting standard had no significant impact on the Company's results.

## Dividend policy and dividends

The Company's policy is to pay an annual dividend representing 15 to 20% of the previous year's net earnings before extraordinary items. For the ninth consecutive year, the Company paid quarterly dividends to its shareholders. The total annual dividend increased by 26.2%, to \$0.265 per share, compared with \$0.21 in 2002.

## Share trading

The value of METRO shares remained in the range of \$15.76 to \$20.20 in 2003. A total of 32.8 million shares traded on the Toronto Stock Exchange during the year. The closing price on Friday, September 26, 2003, was \$19.00, compared with \$17.40 at the end of 2002, a 9.2% increase.

## Accounting policy changes after 2003

In the first quarter of fiscal 2004, the Company will adopt a new accounting principle contained in Section 3063 of the CICA Handbook, "Impairment of Long-lived Assets". Under this new accounting standard, when events or changes of situations result in a long-term loss of value for non-cash assets, impairment must be recorded during that year. Management believes that the adoption of this new standard will not have any material effect on the Company's results, financial situation or cash flows.

In November 2003, the CICA also changed Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments," with the result that, as of January 1, 2004, public companies will have no other choice but to use the fair-value method to account for all stock options granted since the introduction of Section 3870. Application of this change will not have any significant effect, with regard to grants made to date, on the Company's results, financial situation or cash flows.

## Risk management

The Company is exposed to different risks that could impact its profitability. In order to manage them, the Company has adopted different strategies specifically adapted to the principal risk factors.

### Market

The intensification of competition, the possible arrival of new competitors, and the changing needs of consumers are constant concerns for the Company. In order to maintain its leadership in Québec and to increase its presence in Ontario, the Company has developed a successful market segmentation strategy. Its different banners seek to meet the needs of different market segments and are supported by merchandising programs adapted to their specific target clientele.

The Metro, Metro Plus and Loeb banners, for example, offer a very wide variety of products at competitive prices and place special emphasis on customer service. This merchandising approach is supported by an extensive range of private-label products that builds customer loyalty, and by the expertise of the in-store team, who make constant efforts to ensure responsiveness to market trends and consumer needs. The quality of the staff remains a significant asset and the training programs provided by the *METRO School for Professionals* ensure that this advantage is maintained.

The Super C banner, for its part, offers the market's best quality/price ratio to consumers who are both cost and quality conscious, and its merchandising strategy focuses on this specific demand.

## Management's Discussion and Analysis

All the other banners also have strategies adapted to the market segments they are seeking to reach. Finally, the ongoing investment programs in all stores are intended to ensure that the retail network is among the most modern in Canada.

### Labour relations

The Company employs more than 11,000 people, about 9,000 of whom are covered by more than 120 collective agreements. The Company's policy is to negotiate agreements with different maturity dates incorporating terms and conditions that ensure its competitiveness, and with durations that promote a favourable labour climate in all its business sectors. The Company has not experienced any significant labour conflict over the past five years and does not anticipate any major problems in the future.

### Environment

The Company adopted a formal environmental policy several years ago. A committee comprising members of management oversees compliance with environmental standards and requirements, and ensures that all of the Company's divisions are aware of environmental hazards. Environmental audits are conducted regularly in all of the Company's facilities and corrective actions, if necessary, are taken quickly.

### Food safety

The Company applies very strict food-safety procedures and controls across the entire distribution chain. All employees receive ongoing training in this area. Our meat processing and distribution facilities are Hazard Analysis and Critical Control Point (HACCP) accredited, the industry's highest international standard. A traceability project that will allow the Company to identify the store where each meat product has been delivered is currently being developed and will be implemented in the coming fiscal year. This leading-edge project will ensure that the Company is among the first in its industry to meet legal traceability requirements, which will become effective for beef products in 2005 and will be applied progressively to other products.

### Crisis management and emergency plan

The Company has developed crisis management and emergency plans for all of its operations. A steering committee supervises and regularly reviews all the plans of all the divisions and departments. These plans include several physical back-up premises in case of a disaster, generators in case of power blackouts and a backup computer as powerful as the existing central computer. Thanks to these emergency plans, all affected Loeb stores were able to reopen in less than 24 hours following a major power blackout in August 2003 that plunged Ontario and several American border states into total darkness for several days.

### Claims

During the normal course of business, the Company is exposed to various proceedings and claims. The Company limits its exposure by holding insurance policies to cover the risks of claims related to its operations. During fiscal 2003, a group of customer-shareholders launched a suit against the Company demanding notably the cancellation of the conversions of Class B Shares into Class A Subordinate Shares and the selling of certain grocery stores of the Company. The Company is contesting the validity of this claim and management believes that any future settlement will not materially affect the Company's financial position or results.

## Outlook

In the coming years, the Company will continue to benefit from its effective merchandising programs and its consumer-focused products and services. It also intends to maintain one of the most modern retail networks in the Canadian industry by investing with the retailers more than \$450 million over the next three years. In addition, the Company will continue to profit from its investment in information technology and to exercise stringent control over its operating costs.

Confident of its competitiveness, the Company is prepared to tackle new challenges, while remaining poised to take advantage of any opportunity to expand its share of the Canadian food and pharmaceutical markets.



L.G. Serge Gadbois, FCA

Senior Vice-President, Finance and Treasurer

Montréal, October 31, 2003

# Quarterly Highlights

(Millions of dollars, except for earnings per share)

	2003	2002	Change (Percentage)
<b>Sales</b>			
Q1 <sup>(1)</sup>	1,308.9	1,226.7	6.7
Q2 <sup>(1)</sup>	1,219.2	1,121.0	8.8
Q3 <sup>(2)</sup>	1,740.3	1,583.0	9.9
Q4 <sup>(1)</sup>	1,298.9	1,216.1	6.8
Year	5,567.3	5,146.8	8.2
<b>Operating income</b>			
Q1 <sup>(1)</sup>	53.4	47.6	12.2
Q2 <sup>(1)</sup>	56.5	48.9	15.5
Q3 <sup>(2)</sup>	78.0	71.6	8.9
Q4 <sup>(1)</sup>	61.6	56.4	9.2
Year	249.5	224.5	11.1
<b>Net earnings</b>			
Q1 <sup>(1)</sup>	35.3	30.4	16.1
Q2 <sup>(1)</sup>	37.3	31.5	18.4
Q3 <sup>(2)</sup>	52.4	45.9	14.2
Q4 <sup>(1)</sup>	41.3	35.9	15.0
Year	166.3	143.7	15.7
<b>Fully diluted net earnings per share</b> (Dollars)			
Q1 <sup>(1)</sup>	0.35	0.30	16.7
Q2 <sup>(1)</sup>	0.37	0.30	23.3
Q3 <sup>(2)</sup>	0.53	0.45	17.8
Q4 <sup>(1)</sup>	0.42	0.36	16.7
Year	1.67	1.41	18.4
<sup>(1)</sup> 12 weeks			
<sup>(2)</sup> 16 weeks			

## Management's Responsibility for Financial Reporting

The preparation and presentation of the consolidated financial statements of METRO INC. and the other financial information contained in this Annual Report are the responsibility of management. This responsibility is based on a judicious choice of appropriate accounting principles and methods, the application of which requires making estimates and informed judgments. It also includes ensuring that the financial information in the Annual Report is consistent with the consolidated financial statements. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and were approved by the Board of Directors.

METRO INC. maintains accounting and administrative control systems which, in the opinion of management, provide reasonable assurance regarding the accuracy, relevance and reliability of financial information and the well-ordered, efficient management of the Company's affairs.

Through its Audit Committee, the Board of Directors fulfils its duty to oversee management in the performance of its financial reporting responsibilities and to review the consolidated financial statements and Annual Report. This Committee holds periodic meetings with members of management as well as internal and external auditors, to discuss internal controls, auditing matters and financial reporting issues. The Audit Committee has reviewed the consolidated financial statements of METRO INC. and recommended their approval to the Board of Directors.

The enclosed consolidated financial statements were audited by Ernst & Young LLP, Chartered Accountants, and their report indicates the extent of their audit and their opinion on the consolidated financial statements.



Pierre H. Lessard, FCA  
President and Chief Executive Officer



L.G. Serge Gadbois, FCA  
Senior Vice-President, Finance and Treasurer

Montréal, October 31, 2003

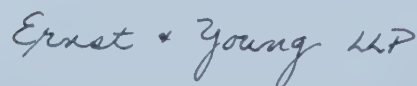
## Auditors' Report

To the Shareholders of METRO INC.

We have audited the consolidated balance sheets of METRO INC. as at September 27, 2003 and September 28, 2002, and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 27, 2003 and September 28, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Ernst & Young LLP  
Chartered Accountants

Montréal, October 31, 2003

## Consolidated Statements of Earnings

Year ended September 27, 2003

(Millions of dollars, except for earnings per share)

	2003	2002
<b>Sales</b>	<b>\$ 5,567.3</b>	<b>\$ 5,146.8</b>
Cost of sales and operating expenses	5,252.9	4,864.7
Depreciation and amortization (note 4)	64.9	57.6
	5,317.8	4,922.3
<b>Operating income</b>	<b>249.5</b>	<b>224.5</b>
Interest		
Short-term	2.2	1.5
Long-term	0.6	1.5
	2.8	3.0
<b>Earnings before income taxes</b>	<b>246.7</b>	<b>221.5</b>
Income taxes (note 5)	80.4	77.8
<b>Net earnings</b>	<b>\$ 166.3</b>	<b>\$ 143.7</b>
<b>Earnings per share (note 6)</b>		
Basic	\$ 1.68	\$ 1.44
Fully diluted	\$ 1.67	\$ 1.41

See accompanying notes

## Consolidated Statements of Retained Earnings

Year ended September 27, 2003

(Millions of dollars)

	2003	2002
<b>Balance at beginning of year</b>	<b>\$ 482.5</b>	<b>\$ 395.7</b>
Net earnings	166.3	143.7
Dividends	(26.2)	(21.0)
Share redemption premium	(30.6)	(12.4)
Stock options settled in cash (net of income taxes of \$13.1)	—	(23.5)
<b>Balance at end of year</b>	<b>\$ 592.0</b>	<b>\$ 482.5</b>

See accompanying notes

# Consolidated Balance Sheets

As at September 27, 2003  
(Millions of dollars)

	2003	2002
<b>Assets</b>		
Current		
Accounts receivable	\$ 352.4	\$ 272.9
Inventories	284.8	270.4
Prepaid expenses	2.4	3.0
Future income taxes (note 5)	8.2	10.3
	647.8	556.6
Investments and other assets (note 7)	43.9	35.7
Fixed assets (note 8)	474.9	400.7
Intangible assets (note 9)	159.2	160.8
Goodwill (note 3)	181.3	178.3
	\$ 1,507.1	\$ 1,332.1
<b>Liabilities</b>		
Current		
Bank loans (note 10)	\$ 79.6	\$ 53.1
Accounts payable	536.6	511.5
Income taxes payable	20.8	2.9
Future income taxes (note 5)	37.8	—
Current portion of long-term debt (note 11)	3.9	3.6
	678.7	571.1
Long-term debt (note 11)	8.8	25.0
Future income taxes (note 5)	67.7	91.8
	755.2	687.9
<b>Shareholders' equity</b>		
Capital stock (note 12)	159.9	161.7
Retained earnings	592.0	482.5
	751.9	644.2
	\$ 1,507.1	\$ 1,332.1
Commitments and contingencies (notes 14 and 15)		

See accompanying notes

On behalf of the Board:



Pierre H. Lessard, FCA  
Director



Pierre Brunet, FCA  
Director

# Consolidated Statements of Cash Flows

Year ended September 27, 2003

(Millions of dollars)

	2003	2002
<b>Operating activities</b>		
Net earnings	\$ 166.3	\$ 143.7
Non-cash items		
Equity earnings in a company subject to significant influence	(7.4)	(6.1)
Depreciation and amortization	64.9	57.6
Losses on disposal and writeoffs of fixed and intangible assets	3.5	2.2
Future income taxes	15.8	14.0
Excess of amounts paid for employee future benefits over expenses recognized	1.3	(0.4)
	244.4	211.0
Net change in non-cash working capital related to operations	(47.1)	15.0
	197.3	226.0
<b>Investing activities</b>		
Business acquisitions (note 3)	(6.7)	(19.7)
Net change in investments	(2.3)	0.8
Net purchase of fixed assets	(117.3)	(113.8)
Net purchase of intangible assets	(20.3)	(22.7)
	(146.6)	(155.4)
<b>Financing activities</b>		
Increase in bank loans	26.5	21.4
Issue of shares	1.0	0.6
Redemption of shares	(33.4)	(13.6)
Stock options settled in cash, net	—	(23.5)
Repayment of long-term debt	(18.6)	(34.5)
Dividends paid	(26.2)	(21.0)
	(50.7)	(70.6)
<b>Net change in cash and cash equivalents</b>	\$ —	\$ —
<b>Other information</b>		
Interest paid	\$ 2.5	\$ 2.9
Income taxes paid	\$ 46.7	\$ 37.5

See accompanying notes

# Notes to Consolidated Financial Statements

September 27, 2003

(Millions of dollars, except for data per share)

## 1. Significant accounting policies

The Company's consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) which require management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements and the accompanying notes. Actual results could differ from these estimates. The Company's consolidated financial statements have been properly prepared within the reasonable limits of materiality and in conformity with the accounting policies summarized below:

### Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances available, if any, after allocation to cheques in transit and to demand bank loans, and highly liquid investments with an initial term of three months or less that are stated at cost, which approximates market value.

### Inventory valuation

Wholesale inventories are valued at the lower of cost, determined by the average cost method, and net realizable value.

Retail inventories are valued at the retail price less the gross margin.

### Investments

The investment in a company subject to significant influence is accounted for using the equity method. Other investments are recorded at cost.

### Fixed assets

Fixed assets are recorded at cost and are depreciated on a straight-line basis over their useful lives. The depreciation method and estimate of the useful life of a fixed asset are reviewed annually.

Buildings	40 years
Equipment	4 to 20 years
Leasehold improvements	5 to 40 years

### Intangible assets

Intangible assets are recorded at cost and are amortized on a straight-line basis over their useful lives. The amortization method and estimate of the useful life of an intangible asset are reviewed annually.

Leasehold rights	20 to 40 years
Improvements and development of retail network loyalty and other	5 to 15 years
Software	3 to 10 years

### Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is tested for impairment annually or more often if events or changes in circumstances indicate that it might be impaired. The impairment test should consist of a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to earnings in the year in which the loss is recognized. The Company uses the discounted cash flows method to determine the fair value of its reporting units.

# Notes to Consolidated Financial Statements

## 1. Significant accounting policies (cont'd)

### Employee future benefits

The Company accounts for its obligations under the employee benefits plans and related costs, net of the plan assets. The Company has therefore adopted the following accounting policies:

- The cost of pension and other retirement benefits earned by employees is determined from actuarial calculations according to the projected benefit method prorated on services based on management's best estimate assumptions about the investment returns on the plans, salary escalation, age retirement of employees and estimated health-care costs.
- For the purpose of calculating the estimated rate of return on the plan assets, assets are assessed at fair value.
- Pension obligations are discounted based on current market interest rates.
- The excess of the net actuarial gain (loss) over 10% of accrued benefit obligations, or over 10% of the fair value of the plan assets where such amount is higher, is amortized over the average remaining service life of employees. The average remaining service period of the active employees covered by the pension plans is 12 years and the average remaining service period of the active employees covered by the other post employment benefit plans is 16 years.

The accrued benefit assets or liabilities are included in investments and other assets on the balance sheet.

### Revenue recognition

Revenues are recognized when the retail sale is made by the corporate stores or when the products are delivered to the affiliated stores and other customers.

### Foreign currency translation

Monetary items on the balance sheet are translated at the exchange rates in effect at year-end, while non-monetary items are translated at the historical rates of exchange. Revenues and expenses are translated at the rates of exchange in effect on the transaction date or at the average exchange rates for the period. Gains or losses resulting from the translation are included in earnings for the year.

### Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are accounted for based on estimated taxes recoverable or payable that would result from the recovery or settlement of the carrying amount of assets and liabilities recorded in the financial statements. Future tax assets and liabilities are measured using the tax rates that are expected to be in effect in the years when the timing differences are expected to reverse. Changes in these balances are included in earnings for the year in which they arise.

### Stock-based compensation and other stock-based payments

The Company accounts for its stock option plan for certain of its employees as capital transactions. As a result, no equity sharing expense is recognized when stock options are issued to employees under the plan. Any consideration paid by employees on the exercise of stock options is credited to capital stock. Until September 28, 2002, if employee stock options were redeemed by the Company, the amount paid, net of taxes, was charged against retained earnings.

### Earnings per share

Earnings per share is calculated based on the weighted average number of Class A Subordinate Shares and Class B Shares outstanding during the year. The diluted earnings per share is calculated using the treasury stock method and takes into account all the elements that have a dilutive effect.

### Fiscal year

The Company's fiscal year ends on the last Saturday of September. The fiscal years ended September 27, 2003 and September 28, 2002 include 52 weeks of operations.

## Notes to Consolidated Financial Statements

### 2. Changes in accounting policies

#### Stock-based compensation and other stock-based payments

In the first quarter of fiscal 2003, the Company adopted on a prospective basis the accounting standard in Section 3870, "Stock-based Compensation and Other Stock-based Payments", of the Canadian Institute of Chartered Accountants Handbook. Under this standard, the Company has chosen to account for the exercise of stock options as a capital transaction, increasing issued and paid-up capital stock by the consideration paid by employees for exercised stock options. Hence, the Company discloses pro forma net earnings and pro forma earnings per share in the notes to consolidated financial statements to show the impact of the fair value method on the determination of stock-based compensation for stock options granted on and after the date this standard was adopted.

### 3. Business acquisitions

On May 31, 2003, the Company acquired the shares of Alexandre Gaudet Ltée, a grocery distributor serving small surface stores, for a cash consideration of \$6.7. Following this acquisition, goodwill in the amount of \$3 has been recorded.

On July 3, 2002, the Company acquired the assets, made up primarily of short-term assets, of Grossiste Sue Shang Inc., a grocery distributor serving independent convenience stores in Québec, for a cash consideration of \$16.7. Stores were also acquired by the Company in 2002. Following these acquisitions, goodwill in the amount of \$7 was recorded.

### 4. Depreciation and amortization

	2003	2002
Fixed assets	\$ 42.3	\$ 36.5
Intangible assets	22.6	21.1
	\$ 64.9	\$ 57.6

### 5. Income taxes

The provision for income taxes was as follows:

	2003	2002
Payable	\$ 64.6	\$ 63.8
Future		
Variation in timing differences	15.8	14.0
	\$ 80.4	\$ 77.8

The effective income tax rates were as follows:

	2003	2002
Combined statutory income tax rate	33.9 %	35.9 %
Changes		
Impact of tax rate changes on future taxes	(0.3)	(0.4)
Other	(1.0)	(0.4)
	32.6 %	35.1 %

## Notes to Consolidated Financial Statements

### 5. Income taxes (cont'd)

Future taxes reflect the net tax impact of timing differences between the value of assets and liabilities for accounting and tax purposes. The main components of the Company's future tax assets and liabilities were as follows:

	2003	2002
<b>Future tax assets</b>		
Accrued expenses, provisions and other reserves that are tax-deductible only at the time of disbursement	\$ 7.6	\$ 7.2
Deferred tax losses	0.6	3.1
	<u>8.2</u>	<u>10.3</u>
<b>Future tax liabilities</b>		
Accumulated equity earnings from a company subject to significant influence	(5.4)	(3.8)
Amount receivable taxable upon receipt	(37.8)	(26.5)
Excess of net book value of fixed and intangible assets over their value for tax purposes	(62.3)	(61.5)
	<u>(105.5)</u>	<u>(91.8)</u>
	<u>\$ (97.3)</u>	<u>\$ (81.5)</u>

### 6. Earnings per share

Basic earnings per share and diluted earnings per share were calculated based on the following number of shares:

	2003 (Millions)	2002 (Millions)
Weighted average number of shares outstanding – Basic	99.0	100.1
Dilutive effect under stock option plan	0.8	1.8
Weighted average number of shares outstanding – Diluted	<u>99.8</u>	<u>101.9</u>

### 7. Investments and other assets

	2003	2002
Investment at equity in a public company operating in the food industry (quoted market value: 2003 – \$208.6; 2002 – \$189.3)	\$ 33.2	\$ 25.8
Investments in private companies, at cost	2.4	2.4
Loans to certain customers bearing interest at floating rates, repayable in monthly instalments, maturing through 2012	7.4	5.1
Accrued benefit assets (note 13)	1.8	3.1
	<u>44.8</u>	<u>36.4</u>
Current portion included in receivables	0.9	0.7
	<u>\$ 43.9</u>	<u>\$ 35.7</u>

## Notes to Consolidated Financial Statements

## 8. Fixed assets

	2003			2002		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 66.9	\$ —	\$ 66.9	\$ 48.7	\$ —	\$ 48.7
Buildings	204.2	57.7	146.5	169.4	51.5	117.9
Equipment	356.9	183.3	173.6	325.6	160.2	165.4
Leasehold improvements	153.0	65.1	87.9	129.5	60.8	68.7
	<b>\$ 781.0</b>	<b>\$ 306.1</b>	<b>\$ 474.9</b>	<b>\$ 673.2</b>	<b>\$ 272.5</b>	<b>\$ 400.7</b>

The net acquisitions under capital leases and other acquisitions of assets excluded from the statement of cash flows totalled \$1.9 and \$0.4 in 2003 and 2002 respectively.

The gross value of leased assets and the related accumulated depreciation totalled \$13 and \$7.2 respectively in 2003 (2002 – \$12.2 and \$5.8).

## 9. Intangible assets

	2003			2002		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Leasehold rights	\$ 55.0	\$ 20.1	\$ 34.9	\$ 54.8	\$ 18.5	\$ 36.3
Software	76.5	24.0	52.5	72.9	15.7	57.2
Improvements and development of retail network loyalty and other	161.4	89.6	71.8	147.9	80.6	67.3
	<b>\$ 292.9</b>	<b>\$ 133.7</b>	<b>\$ 159.2</b>	<b>\$ 275.6</b>	<b>\$ 114.8</b>	<b>\$ 160.8</b>

Net acquisitions of intangible assets excluded from the statement of cash flows amounted to \$0.9 and \$2.4 in 2003 and 2002 respectively.

## 10. Bank loans

The Company has a demand revolving credit facility of \$30, as well as a term revolving credit facility of \$100, renewable in June 2004. These are unsecured facilities that bear interest based on market rates. As at September 27, 2003, \$3 of the demand facility and \$65.8 of the term facility (\$10 and \$25.4 respectively as at September 28, 2002) were used, at the interest rate of 3.3% (2002 – 3.2%). The bank loans also include cheques in transit totalling \$10.8 (\$17.7 as at September 28, 2002).

## Notes to Consolidated Financial Statements

### 11. Long-term debt

	2003	2002
Term loan bearing interest at 3.4%	\$ —	\$ 15.0
Other loans, maturing on various dates, bearing interest at an average rate of 5.3% (2002 – 5.4%)	8.5	9.0
Obligations under capital leases, bearing interest at an average rate of 5.4% (2002 – 5.2%)	4.2	4.6
	12.7	28.6
Current portion	3.9	3.6
	\$ 8.8	\$ 25.0

The Company had a term revolving credit facility totalling \$150. These were unsecured facilities that bear interest at market rates.

Minimum payments required on the long-term debt over the next five years were as follows:

	Obligations under capital leases	Other loans	Total
2004	\$ 2.5	\$ 1.6	\$ 4.1
2005	1.9	1.5	3.4
2006	—	1.1	1.1
2007	—	0.5	0.5
2008	—	0.2	0.2
2009 and thereafter	—	3.6	3.6
	\$ 4.4	\$ 8.5	\$ 12.9

The minimum payments in respect of the obligations under capital leases included interest amounting to \$0.2 on these obligations.

### 12. Capital stock

#### Authorized

Unlimited number of First Preferred Shares, non-voting, without par value, issuable in series.

Unlimited number of Class A Subordinate Shares, bearing one voting right per share, participating, convertible into Class B Shares in the event of a takeover bid involving Class B Shares, without par value.

Unlimited number of Class B Shares, bearing 16 voting rights per share, participating, convertible in the event of disqualification into an equal number of Class A Subordinate Shares on the basis of one Class A Subordinate Share for each Class B Share held, without par value.

## Notes to Consolidated Financial Statements

## 12. Capital stock (cont'd)

## Issued

	Class A Subordinate Shares		Class B Shares		Total
	Number		Number		
	(Thousands)		(Thousands)		
Balance as at September 29, 2001	98,929	\$ 159.8	1,236	\$ 2.5	\$ 162.3
Share issue for cash	51	0.6	—	—	0.6
Share redemption for cash, excluding premium of \$12.4	(730)	(1.2)	—	—	(1.2)
Conversion of Class B Shares into Class A Subordinate Shares	162	0.3	(162)	(0.3)	—
Balance as at September 28, 2002	98,412	159.5	1,074	2.2	161.7
Share issue for cash	86	1.0	—	—	1.0
Share redemption for cash, excluding premium of \$30.6	(1,760)	(2.8)	—	—	(2.8)
Conversion of Class B Shares into Class A Subordinate Shares	65	0.1	(65)	(0.1)	—
<b>Balance as at September 27, 2003</b>	<b>96,803</b>	<b>\$ 157.8</b>	<b>1,009</b>	<b>\$ 2.1</b>	<b>\$ 159.9</b>

During the year ended September 28, 2002, the Company split all its Class A Subordinate Shares and all its Class B Shares on a 2-for-1 basis. All information about the shares and data per share have been restated to take the split into account.

**Stock option plan**

The Company has a stock option plan for certain employees with options to purchase up to 10,000,000 Class A Subordinate Shares. The subscription price of each Class A Subordinate Share option issued under the plan is equal to the market price of the shares on the day prior to the day the option was granted and must be paid in full at the time the option is exercised. While the Board of Directors determines other terms and conditions for the exercise of options, options may not extend beyond a five-year period from the date the option may initially be exercised, in whole or in part, and the total period may never exceed ten years from the date the option was granted. Options may generally be exercised two years after they were granted on the basis of 20% per year.

Until September 28, 2002, option holders under the plan could elect to receive at the time the options were exercised a cash amount equal to the difference between the market price of the underlying shares and the exercise price of the options. The mechanism by which options could be exercised for cash was eliminated on September 28, 2002.

## Notes to Consolidated Financial Statements

## 12. Capital stock (cont'd)

The options outstanding and the changes during the year were summarized as follows:

	Number of options (Thousands)	Weighted average exercise price (Dollars)
Balance as at September 29, 2001	5,067	
Granted	3,221	21.23
Exercised	(34)	8.33
Settled in cash	(3,006)	8.82
Cancelled	(72)	9.48
Balance as at September 28, 2002	5,176	
Granted	239	17.22
Exercised	(58)	9.46
Cancelled	(67)	19.70
<b>Balance as at September 27, 2003</b>	<b>5,290</b>	

The table below summarizes information regarding the stock options outstanding and exercisable as at September 27, 2003.

Range of exercise prices (Dollars)	Options outstanding			Exercisable options	
	Number of options (Thousands)	Weighted average remaining period (Months)	Weighted average exercise price (Dollars)	Number of options (Thousands)	Weighted average exercise price (Dollars)
7.28 – 9.80	979	32.2	8.92	323	8.87
10.68 – 15.50	918	53.4	11.91	177	11.86
17.01 – 21.75	3,393	62.3	20.79	734	20.41
	<b>5,290</b>			<b>1,234</b>	

During the year, the Company granted 239,500 stock options. The weighted average exercise price of \$17.22 and the weighted average fair value of \$5.43 were established at the time of grant using the Black & Scholes model and based on the following weighted average assumptions: risk-free interest rate of 4.26%, expected six-year term, anticipated volatility of 30%, and an anticipated 1.5% dividend yield. If they had been established using the fair value method, compensation costs for the year would have come to one hundred and one thousand dollars. Pro forma net earnings and pro forma earnings per share would not be materially affected.

## Notes to Consolidated Financial Statements

## 13. Employee future benefits

The Company offers several defined benefit and defined contribution plans that provide most employees with pension, other retirement and other post-employment benefits.

The Company's defined benefit and defined contribution plan expenses were as follows:

	2003		2002	
	Pension plans	Other plans	Pension plans	Other plans
<b>Defined contribution plans</b>	\$ 5.7	\$ 0.3	\$ 5.7	\$ 0.4
<b>Defined benefit plans</b>				
Current service cost	\$ 4.1	\$ 0.5	\$ 3.8	\$ 0.5
Interest cost	4.9	0.2	4.2	0.2
Expected return on plan assets	(4.2)	—	(3.8)	—
Amortization of actuarial losses and service cost	0.6	—	0.4	—
	\$ 5.4	\$ 0.7	\$ 4.6	\$ 0.7

The information on defined benefit plans was as follows:

	2003		2002	
	Pension plans	Other plans	Pension plans	Other plans
<b>Accrued benefit obligations</b>				
Balance at beginning of year	\$ 64.3	\$ 3.3	\$ 53.7	\$ 3.0
Current service cost	4.1	0.5	3.8	0.5
Interest cost	4.9	0.2	4.2	0.2
Employee contributions	2.7	—	2.6	—
Plan amendment	—	—	1.2	—
Benefits paid	(2.2)	(0.5)	(1.4)	(0.5)
Actuarial loss	2.0	0.9	0.2	0.1
Balance at end of year	75.8	4.4	64.3	3.3
<b>Plan assets</b>				
Fair value at beginning of year	56.4	—	50.6	—
Actual return on plan assets	3.6	—	(0.6)	—
Employer contributions	4.5	0.5	5.2	0.5
Employee contributions	2.7	—	2.6	—
Benefits paid	(2.2)	(0.5)	(1.4)	(0.5)
Fair value at end of year	65.0	—	56.4	—
<b>Funded status – loss</b>	(10.8)	(4.4)	(7.9)	(3.3)
Unamortized past service costs	1.1	—	1.2	—
Unamortized net actuarial loss	14.9	1.0	12.9	0.2
<b>Accrued benefit assets (liabilities)</b>	\$ 5.2	\$ (3.4)	\$ 6.2	\$ (3.1)

Defined benefit plans other than retirement plans were not funded.

## Notes to Consolidated Financial Statements

### 13. Employee future benefits (cont'd)

The most important actuarial assumptions used by the Company to determine its accrued benefit obligations were as follows:

	2003		2002	
	Pension plans	Other plans	Pension plans	Other plans
Discount rate	6.5%	6.5%	7.0%	7.0%
Expected long-term rate of return on plan assets	7.5%	—	7.5%	—
Rate of compensation increase	3.5%	3.5%	4.0%	4.0%

For evaluation purposes, the annual growth rate assumption for the cost of health care for each participant was established at 7.1% in 2003 (2002 – 5.8%). Under this assumption, this rate is expected to gradually decline to 4.4% in 2013 and remain at this level subsequently.

### 14. Commitments

The Company has operating lease commitments, with varying terms through 2027, to lease premises and equipment used for business purposes. The Company also has commitments under service contracts. The minimum payment balance amounted to \$327.5 as at September 27, 2003 (\$327.2 as at September 28, 2002). The minimum payments over the next five years are as follows: \$38.7 in 2004; \$37.9 in 2005; \$34.1 in 2006; \$31.3 in 2007, \$27.6 in 2008 and \$157.9 for 2009 and thereafter.

In addition, the Company has lease and lease offer commitments, with varying terms through 2029, to lease premises which it sublets to customers, generally under the same terms and conditions. The minimum payment balance under these leases was \$419 as at September 27, 2003 (\$315.4 as at September 28, 2002) and the average annual payments for the next five years are \$36.3.

The Company has also agreed to subscribe to a new issue of shares from a public company subject to significant influence in order to maintain the percentage of its interest, for a total commitment of \$23.6. This subscription is in connection with a private placement made by the Company which will enable the company subject to significant influence to partially finance the acquisition of certain assets by January 31, 2004. This subscription is subject to the successful completion of this acquisition.

### 15. Contingencies

#### Endorsements

For certain of its customers with whom business relationships are established, the Company assumes a contingent liability as guarantor of lease agreements with varying terms through 2019 for which the average annual lease payments for the next five years are \$2.3. The maximum contingent liability under these endorsements as at September 27, 2003 was \$18.7. Also, the Company has endorsed loans granted to certain customers by financial institutions, with varying terms through 2012, for a maximum amount of \$24.2. The balance of these loans as at September 27, 2003 was \$19.1. In return, the Company holds a charge on the shares of the Company held by its customers, as well as second hypothecs on their inventories, moveable goods and accounts receivable. No liability has been recorded in respect of these various endorsements for the years ended September 27, 2003 and September 28, 2002.

#### Claims

In the normal course of business, various proceedings and claims are instituted against the Company. The Company contests the validity of these claims and proceedings and management believes that any forthcoming settlement in respect of these claims will not have a material effect on the financial position or on the consolidated earnings of the Company.

## Notes to Consolidated Financial Statements

### 16. Related party transactions

During the year, sales to companies controlled by members of the Board of Directors totalled \$40.5 (2002 – \$39.6) and sales to a company subject to significant influence amounted to \$4.2 (2002 – \$65.1). These transactions were conducted in the normal course of business and were accounted for at the exchange amount. Accounts receivable include a balance of \$3.7 (2002 – \$2.3) resulting from these transactions. In 2003, no loans (2002 – \$0.6) were extended to officers.

### 17. Segmented information

The Company operates primarily in the Canadian food distribution industry segment. The Company's sales in this segment amounted to \$5,134.1 for the year ended September 27, 2003 (2002 – \$4,772.8). This segment accounted for more than 95% of operating income, depreciation and amortization, fixed asset acquisitions and goodwill for the years ended September 27, 2003 and September 28, 2002. Segment assets represented approximately 92% of total assets as at September 27, 2003 (2002 – 93%). The Company also operates in the Canadian pharmaceutical distribution industry segment.

### 18. Fair value of financial instruments

#### Fair value

The fair value of accounts receivable, including loans to officers, income taxes payable, bank loans and accounts payable approximates their carrying value because of the short-term maturity of these instruments.

The fair value of loans included in investments and of the items included in long-term debt is equivalent to their carrying value since they are at floating interest rates or at interest rates that are comparable to market rates.

#### Credit risk

The Company sells its products to numerous customers in Canada. The Company performs ongoing credit evaluations of its customers. As at September 27, 2003 and September 28, 2002, no customer accounted for over 10% of the total accounts receivable.

### 19. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

## Financial Retrospective

	2003 52 weeks	2002 52 weeks	2001 52 weeks	2000 53 weeks	1999 52 weeks
<b>Summary of results</b> (Millions of dollars)					
Sales	5,567.3	5,146.8	4,868.9	4,657.5	3,995.5
Depreciation and amortization	64.9	57.6	61.4	52.5	44.3
Operating income	249.5	224.5	189.2	167.0	143.0
Financing costs	2.8	3.0	5.2	9.2	5.9
Unusual items	—	—	—	—	15.0
Income taxes	80.4	77.8	61.2	60.5	45.7
Net earnings before unusual items	166.3	143.7	122.8	97.3	84.6
Net earnings	166.3	143.7	122.8	97.3	76.4
<b>Financial structure</b> (Millions of dollars)					
Working capital	(30.9)	(14.5)	12.4	(25.8)	(50.4)
Current assets	647.8	556.6	504.5	421.8	374.6
Current liabilities	678.7	571.1	492.1	447.6	425.0
Fixed assets	474.9	400.7	325.7	284.8	286.4
Intangible assets	159.2	160.8	156.2	146.1	127.5
Goodwill	181.3	178.3	171.3	176.1	180.8
Total assets	1,507.1	1,332.1	1,186.0	1,059.7	996.2
Long-term debt	8.8	25.0	55.3	88.6	144.2
Shareholders' equity	751.9	644.2	558.0	461.7	392.3
<b>Financial ratios</b>					
Operating income/sales (%)	4.5	4.4	3.9	3.6	3.6
Net earnings before unusual items/sales (%)	3.0	2.8	2.5	2.1	2.1
Net earnings/sales (%)	3.0	2.8	2.5	2.1	1.9
Cash flows from operating activities/sales (%)	3.5	4.4	3.0	3.4	4.9
Return on shareholders' equity (%)	23.8	23.9	24.1	22.8	20.8
Long-term debt/shareholders' equity (xx:1)	0.01	0.04	0.10	0.19	0.37
Total debt/shareholders' equity (xx:1)	0.02	0.04	0.11	0.21	0.38
Working capital (xx:1)	0.95	0.97	1.03	0.94	0.88
Interest coverage (times)	89.1	74.8	36.4	18.1	21.5
<b>Common share</b> (Dollars)					
Net earnings before unusual items	1.68	1.44	1.23	0.97	0.84
Net earnings	1.68	1.44	1.23	0.97	0.76
Fully diluted net earnings before unusual items	1.67	1.41	1.21	0.96	0.82
Fully diluted net earnings	1.67	1.41	1.21	0.96	0.74
Dividend	0.265	0.21	0.1725	0.145	0.125
Book value	7.69	6.47	5.57	4.60	3.89
Market price					
High	20.20	22.37	18.87	10.33	11.73
Low	15.76	16.90	9.00	7.38	8.50
Number of shares outstanding at year-end (Millions)	97.8	99.5	100.2	100.4	100.8
Weighted average number of shares outstanding (Millions)	99.0	100.1	100.2	100.4	101.0
Trading volume (Millions)	32.8	45.3	50.8	68.8	46.2

## Directors and Officers

### Board of Directors

**Mario Beaumier** <sup>(1)</sup>  
Bécancour, Québec  
Director

**Pierre Brunet** <sup>(2)</sup> <sup>(3)</sup>  
Île-des-Soeurs, Québec  
Director

**Marc DeSerres** <sup>(4)</sup>  
Westmount, Québec  
Director

**Serge Ferland** <sup>(2)</sup> <sup>(5)</sup>  
Québec City, Québec  
Director

**Paule Gauthier** <sup>(2)</sup> <sup>(3)</sup>  
Québec City, Québec  
Director

**Paul Gobeil** <sup>(1)</sup>  
Île-des-Soeurs, Québec  
Vice-Chairman of the Board

**Maurice Jodoin** <sup>(1)</sup> <sup>(3)</sup> <sup>(5)</sup>  
Île-des-Soeurs, Québec  
Chairman of the Board

**Maryse Labonté** <sup>(2)</sup>  
Sainte-Marie de Beauce,  
Québec  
Director

**Gilles Lamoureux** <sup>(4)</sup> <sup>(5)</sup>  
Toronto, Ontario  
Director

**Pierre H. Lessard** <sup>(1)</sup>  
Ville Mont-Royal, Québec  
Chairman of the Executive  
Committee

**Marie-José Nadeau** <sup>(4)</sup>  
Outremont, Québec  
Director

**Bernard A. Roy** <sup>(1)</sup> <sup>(2)</sup> <sup>(5)</sup>  
Montréal, Québec  
Director

**Pierre Shooner** <sup>(1)</sup> <sup>(3)</sup> <sup>(4)</sup>  
Outremont, Québec  
Director

### Management of METRO INC.

**Pierre H. Lessard**  
Ville Mont-Royal, Québec  
President and  
Chief Executive Officer

**Paul Gobeil**  
Île-des-Soeurs, Québec  
Vice-Chairman of the Board

**Alain Brisebois**  
Morin-Heights, Québec  
Senior Vice-President,  
Wholesale Operations

**L.G. Serge Gadbois**  
Boucherville, Québec  
Senior Vice-President,  
Finance and Treasurer

**Eric Richer La Flèche**  
Ville Mont-Royal, Québec  
President, Loeb Canada Inc.  
Senior Vice-President and  
General Manager, Super C

**Robert Sawyer**  
Ville Mont-Royal, Québec  
Senior Vice-President, Retail

**Martin Allaire**  
Montréal, Québec  
Vice-President, Real Estate

**Jacques Couture**  
Laval, Québec  
Vice-President,  
Information Systems

**Paul Dénomme**  
Brossard, Québec  
Vice-President, Controller

**Alain Picard**  
Montréal, Québec  
Vice-President,  
Human Resources

**Simon Rivet**  
Brossard, Québec  
General Counsel  
and Secretary

### Management of METRO RICHELIEU INC.

**Serge Boulanger**  
St-Hubert, Québec  
Vice-President, Marketing

**Christian Bourbonnière**  
Boucherville, Québec  
Vice-President,  
Produce and Baked Goods

**Pierre Paul Bourdon**  
Boucherville, Québec  
Vice-President, Food Services

**Denis Brisebois**  
Montréal, Québec  
Vice-President,  
Affiliate Operations

**Claude Brunetta**  
Boucherville, Québec  
Vice-President, Development  
and Banner Development

**Jean-Louis Charpentier**  
Boucherville, Québec  
Vice-President, Private Labels

**Pierre Charron**  
Longueuil, Québec  
Vice-President,  
Procurement Grocery

**Paul Laporte**  
Boucherville, Québec  
Vice-President,  
Logistics and Distribution

**Jean Quenneville**  
St-Adolphe-d'Howard, Québec  
Vice-President,  
Franchise Operations

**Daniel Simard**  
Boucherville, Québec  
Vice-President,  
Merchandising Metro and  
Marché Richelieu Banners

**Lawrence Timmons**  
Iberville, Québec  
Vice-President, Meat

### Management of Super C

**Johanne Choinière**  
Montréal, Québec  
Vice-President, Merchandising

**Denis Pascal**  
Longueuil, Québec  
Vice-President Operations

### Management of Loeb Canada inc.

**André Gagné**  
Ottawa, Ontario  
Vice-President and  
General Manager

**Richard Beaubien**  
Cumberland, Ontario  
Vice-President Operations

### Management of McMahon Distributeur pharmaceutique inc.

**Denise Martin**  
Sainte-Agathe-des-Monts,  
Québec  
Vice-President  
and General Manager

(1) Member of the Executive Committee

(2) Member of the Audit Committee

(3) Member of the Human Resources  
Committee

(4) Member of the Corporate Governance  
Committee

(5) Member of the Nomination Committee

## Shareholder Information

### Transfer agent and registrar

National Bank Trust

### Bankers

National Bank of Canada  
Bank of Montreal  
Royal Bank of Canada  
Caisse centrale Desjardins  
TD Bank Financial Group

### Stock listing

Toronto Stock Exchange  
Ticker Symbol: MRU.A

### Auditors

Ernst & Young LLP  
Chartered Accountants

### Head office address

11011 Maurice-Duplessis Blvd.  
Montréal, Québec H1C 1V6

The Annual Information Form  
may be obtained from the  
Investor Relations Department:  
Tel.: (514) 643-1055  
E-mail: [finance@metro.ca](mailto:finance@metro.ca)

*Vous pouvez vous procurer la  
version française de ce rapport  
auprès du service des relations  
avec les investisseurs.*

METRO INC.'s corporate  
information and press releases  
are available on  
the Internet at the following  
address: [www.metro.ca](http://www.metro.ca)

### Annual meeting

The Annual General Meeting of  
Shareholders will be held on  
January 27, 2004 at 11:00 a.m.  
at the:

Omni Mont-Royal Hotel  
1050 Sherbrooke Street West  
Montréal, Québec H3A 2R6

## Dividends\* — 2004 Fiscal Year

### Declaration Date

January 26, 2004  
April 7, 2004  
August 3, 2004  
September 28, 2004

### Record Date

February 10, 2004  
May 4, 2004  
August 16, 2004  
November 8, 2004

### Payment Date

March 3, 2004  
May 25, 2004  
August 31, 2004  
November 29, 2004

\* Subject to approval by the Board of Directors.

